

MTP 2 (Ch. 2 – Audit Strategy, Planning & Programme and Ch. 3 – Risk Assessment and IC)

Marks: 27

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

CA. Anoothi has been offered appointment as auditor of an NSE listed company. She has already ticked checkboxes relating to her independence vis-à-vis company and integrity of promoters and key management personnel. Being satisfied on this count and after sending formal engagement letter to the company, she is in midst of planning activities for company's audit. Owner of country's one of topmost writing instrument brands, above said company is in business of producing ball pens, gel pens, markers, folders and such general stationery products.

Business profile of the company including its brief history, detail of its key managerial persons and brief description of company's activities was obtained by her. She has also studied reports relating to growth of India's stationery market due to greater demand and impact of government driven schemes like Sarv Shiksha Abhiyaan (SSA). Besides, she has also obtained risk management policy of the company which contained company's strategy to contain various risks.

On perusal of financial statements of company, it is noticed that the company's inventories as at close of financial year stood at ₹ 200 crore which constitutes about 25% of its total assets. She is planning to identify significant audit risks pertaining to valuation of inventories.

She is also considering about materiality level for financial statements as a whole.

Keeping in view above, answer the following questions:

- Q.1 The auditor has obtained risk management policy of the company. Which of the following statements is most appropriate in this regard? 2**
- (a) The understanding of company's risk management policy is required by auditor. It may help the auditor in identifying risks of material misstatement that management failed to identify.
- (b) The understanding of company's risk management policy is not required by auditor. It deals with business risks of company. Audit risk is not influenced by company's business risks.
- (c) The understanding of company's risk management policy is required by auditor. However, it cannot help the auditor in identifying risks of material misstatement that management failed to identify.
- (d) The understanding of company's risk management policy is sufficient for an auditor to develop an audit plan.
- Q.2 Which of the following is not likely to be a procedure for auditor to understand the company? 2**
- (a) Performing an online search to identify press reports relating to the company

- (b) Reviewing any new SEBI and stock exchange requirements
- (c) Reviewing whether fresh moneys were raised from public
- (d) Seeking confirmation letters from bankers regarding outstanding balances

Q.3 Considering auditor's intention to identify significant audit risks pertaining to inventory valuation, which of the following statements is likely to be true? 2

- (a) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit plan.
- (b) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit strategy.
- (c) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of tests of controls.
- (d) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of tests of details.

Q.4 In relation to materiality levels for financial statements as a whole, which of the following statements is most appropriate? 2

- (a) Materiality has to be decided by auditor after identification and assessment of risks of material misstatements.
- (b) Materiality has to be decided by auditor prior to identification and assessment of risks of material misstatements.
- (c) Materiality has to be decided by auditor after performing risk assessment procedures.
- (d) Materiality has to be decided by auditor at time of designing tests of controls and substantive procedures.

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt any two from the rest.

Q.1 (a) Calen Retail Ltd. is preparing its annual F.S. and auditors are tasked with determining materiality. The company has used revenue as the benchmark, as it is a key indicator of performance. However, Calen Retail has recently opened new stores and closed underperforming ones, which could significantly affect both revenue and profitability. As per given case, what factors should the auditors consider when selecting the most appropriate benchmark for materiality? 4

(b) In establishing overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. Elucidate those cases by which auditor can ascertain the reporting objectives of the engagement. 5

Q.2 ATL Pvt. Ltd., a leading manufacturing company, appointed CA Atul as an auditor for the year 2023-24. Given the complexity of the company's operations and the need for a systematic approach, he plans to design a detailed audit programme to ensure the accuracy of financial assertions. As a CA student, if you were assisting CA Atul in constructing this audit programme, what are the points you will keep in mind? 5

Q.3 In an automated environment, General IT controls are policies and procedures that relate to many applications and support the effective functioning of application controls. It includes access security as well as program change. What are the objectives and activities included in access security and program change? 5

Q.4 The auditor of XYZ Ltd., engaged in FMCG (Fast Moving Consumable Goods) obtains an understanding of the control environment. As part of obtaining this understanding, the auditor evaluates whether: 5

- (i) Management has created and maintained a culture of honesty and ethical behaviour; and
- (ii) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control.

Advise what is included in control environment. Also explain the elements of control environment.

Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

Subject line "Inter Audit Test – MTP 2"

Mention the following in the E-mail and answer Sheet:

1. Name: _____
2. Mobile No.: _____
3. Test: Inter Audit – MTP 2 (Sep. 25 Exam)
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